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# REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON EMADLANGENI MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Emadlangeni Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Emadlangeni Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Material losses and impairments**

8. As disclosed in note 47 to the financial statements, material electricity losses to the amount of R1,78 million were incurred as a result of distribution inefficiencies.
9. As disclosed in note 11 to the financial statements, the municipality made a provision for impairment of R14,25 million in debtors, whose recoverability is considered doubtful, due to poor collection practices.

## **Additional matters**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited supplementary schedules**

11. The supplementary information set out on pages xx to xx do- not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

## **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

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## **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014.

Objective 2: Infrastructure and services on pages xx to xx

Objective 3: Social and local economic development on pages xx to xx

Objective 4: Spatial and environmental development on pages x to x

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*(FMPPi).

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the selected objectives are as follows:

### **Usefulness of reported performance information**

#### **Consistency of objectives, indicators and targets**

19. Section 41(c) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 24% of the reported indicators and 28% of the reported targets were not consistent with the indicators/targets as per the IDP. This is due to indicators and targets reported in the annual performance report that were changed in-year without following the process as prescribed in section 34 of the MSA and/or without adoption by the council of the municipality.

### **Reliability of selected objectives in the annual performance report**

#### **Validity, accuracy and completeness**

20. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to inadequate review and monitoring of source documentation to ensure that it is valid, accurate and complete.



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### **Additional matter**

21. I draw attention to the following matter: My conclusion is not modified in respect of this matter.

### **Achievement of planned targets**

22. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs xx to xx of this report.

### **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements**

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of fixed assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

### **Leadership**

26. The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance as well as internal control. In this regard, the accounting officer did not periodically assess whether staff members had essential skills and knowledge to support the achievement of credible reporting. In addition, key vacancies were not filled in a timely manner in order to mitigate deficiencies to achieve desired control objectives.

### **Financial and performance management**

27. Adequate processes were not in place to communicate timely and relevant information to oversight and regulatory parties, in that monthly reporting was not at optimal levels. This is evidenced by material corrections in the financial statements as well as weaknesses in the usefulness and reliability of performance reporting.

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## Governance

28. The audit committee did not adequately assess the effectiveness of controls and responses to risks, as evidenced by material corrections in the financial statements and deficiencies in the annual performance report.

*Auditor-General*

Pietermaritzburg

28 November 2014



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*